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Operational activities of the United Nations for international development cooperation: Follow-up to policy recommendations of the General Assembly and the Council

Funding of development cooperation activities of the United Nations system

Report of the Secretary-General**

Summary

The present report has been prepared in accordance with General Assembly resolution 56/201 (para. 27) on the triennial comprehensive policy review, in which the Assembly requested the Economic and Social Council to consider, at its substantive session of 2003, the conclusions reached at the triennial comprehensive policy review on resources for operational activities for development, while reviewing the progress made in funding development cooperation activities of the United Nations system. The report analyses the issue of funding for the United Nations system's development cooperation in the new context emerging from the Millennium Summit and the Monterrey Conference, and highlights the development role of the United Nations system through its operational structures. The report reviews the pattern of United Nations development funding, its trends and current modalities, outlines traditional public funding sources, as well as private initiatives and domestic resources, implications of the relationships with the Bretton Woods institutions and consequences of the core funding shortfall, and concludes with a recommendation for renewed dialogue among Member States with a view to reaching agreement at the triennial comprehensive policy review in 2004 on strengthening the resource foundation for the operational work of the system.

* E/2003/100.

** The present report was submitted after the expiration of the deadline for submission of reports to the Economic and Social Council. The delay was caused by the need to conduct further consultations with United Nations funds and programmes and specialized agencies, which provided additional documentation. Thorough analysis of this additional information was included in the report, but could be completed only after expiration of the deadline.

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I. A new context for multilateral development cooperation[1]

1. Funding for operational activities for development has been on the agenda of the Economic and Social Council and the General Assembly for many years.[2] The Executive Boards of the funds and programmes and governing bodies of other organizations of the system address it on a continuing basis. There is an intensive ongoing dialogue on this issue between the senior management of organizations of the system and donor countries. Yet, despite recent positive signs of a turnaround with regard to funding, the questions surrounding this issue continue to cause concern and exercise the attention of the international community.

2. A renewed consideration of funding issues at the current session of the Council is particularly opportune for two reasons:

- First, major United Nations summits and conferences, especially, the Millennium Summit and the International Conference on Financing for Development held at Monterrey, Mexico, in March 2002, have created a new development context with a broad consensus on a shared agenda and given renewed impetus to international development cooperation focusing on time-bound goals and a new global partnership. It is time, in this context, to address the question of the role of the United Nations operational activities for development in helping to achieve these goals.

- Second, the Council's consideration of this question at this session, can help set the stage to launch a comprehensive review of funding issues among Member States leading to firm conclusions and clear orientations at the time of the triennial comprehensive policy review that the General Assembly will undertake in 2004.

3. Perhaps, the most striking and encouraging feature of the current context for development is the almost universal recognition that "business as usual" will not do. At the core of the new development agenda are the internationally agreed development goals, including those contained in the Millennium Declaration. The Monterrey Conference helped set the foundation for a global partnership, with commitments by developed and developing countries, thus generating fresh momentum for mobilizing the resources required to achieve these goals.[3]

4. Recent international discussions have given further impetus to goal- and result-oriented development cooperation. One key message emanating from the high-level meeting of the Council, the Bretton Woods institutions and the World Trade Organization held on 14 April 2003 in New York and of the Development Committee meeting that preceded it in Washington, D.C., was a clear focus on coherent "implementation" of this development agenda and on producing and monitoring results at the country level, implying a qualitative change in how efforts are galvanized, and how resources can be mobilized and coalesced to achieve real results.

5. At the country-level, the Government has the primary responsibility for the formulation and implementation of the national development strategy and for establishing priorities, taking into account the internationally agreed development goals. While the Government must take ownership and lead, coordination and coherence in implementation is of paramount importance. This calls for enhanced capacity to coordinate modalities and sources of development support, as well as

different actors, instruments and initiatives in development cooperation, with public and private investment (both domestic and foreign), within a sound policy framework and in a context of institutional reforms and capacity development. Domestic savings capacity is fundamental and so are trade and private investment.

6. Even if all this is pursued, however, most developing countries will not be able to achieve the internationally agreed development goals with their own resources, unless they are significantly supplemented with external resources, from both public and private sources. Official development assistance (ODA) will continue to play a fundamental, catalytic and multidimensional role, especially in the least developed countries but also in other developing countries, although its role is complementary. According to a World Bank estimate, if countries improve their policies and institutions, the additional foreign aid required to reach the Millennium Development Goals by 2015 is $40-60 billion a year.[4] The provision of additional ODA, however, should be combined with its effective use. Effective institutions and instruments are needed to administer and deliver aid, and innovative ways should be found to link development cooperation with other measures.

II. The role for United Nations system development cooperation

7. The basic question to be addressed in this post-Monterrey period, when major donors have begun to increase their ODA, is where and how does multilateral development cooperation and, in particular, the operational work of the United Nations system, fit into the international development agenda. Can the international community afford to continue to do "business as usual" with the "each on its own" approach of the past, or should there be a better understanding of, and greater complementarity between, the respective roles of the various development partners? Are increased bilateral flows enough to achieve the synergy required to help realize the internationally agreed development goals? Or does the United Nations system have a role, in concert with development finance institutions and bilateral donors, in building viable, result-oriented partnerships with countries? And if so, does the present pattern of funding prepare the system to play this partnership role?

8. It is, after all, the universal, democratic and neutral character of the United Nations that has helped build a consensus around this development agenda. The United Nations development system needs to be strengthened with increased funding in order to work effectively with national authorities and other bilateral and multilateral actors at the country level. The operational activities of the system deserve particular attention in order to maintain the advocacy role and credibility of the system as a source of neutral advice.

9. In a context that calls for complementary roles of a variety of partners and instruments and the pursuit of consistent development strategies, no single donor or financial institution can provide the support that recipient countries require to handle the complexities of such a massive effort.

10. Development cooperation is the face of the United Nations system at the "people level". It brings its presence in the developing countries to where development needs manifest themselves. Indeed, much of the required action does and should take place at the grass-roots level, close to the people, particularly the

poor, since the relevance and effectiveness of the United Nations development system must manifest itself at that level.

11. As countries assume full responsibility and ownership of their development strategies and goals, and capacity-building for the formulation and implementation of national strategies and programmes is becoming a critical factor of success, the United Nations development system has come to be valued and trusted as a disinterested partner and a source of rich knowledge and experience, with a clear comparative advantage in capacity-building with regard to poverty eradication, education, health, HIV/AIDS, gender and other key areas.

12. The system has also an important advantage in building data collection and monitoring capabilities — an area that is once again crucial for measuring progress towards the attainment of internationally agreed goals.

13. With its strong presence in the field, spread over 130 countries, the United Nations system can link the global development agenda with its country-level support, providing the best platform to respond to national priorities in a coherent and integrated way through its wealth of experience and potential contributions to key aspects of institutional, economic and social development. The system has the legitimacy and the ability to promote and facilitate national dialogue on development among key stakeholders in society, together with its development partners, thus helping to integrate internationally agreed development goals into national development strategies.

14. The United Nations system performs many other crucial functions in the development and humanitarian fields, including providing assistance to countries emerging from conflict, or peace-building, in which its leadership role is well recognized. In such situations, the strategic role of the system provides a platform to help countries set their path for long-term development.

15. The reform process of recent years has been geared towards the single purpose of assisting recipient countries to enhance coordination for better results. The strengthening of the resident coordinator system, the United Nations country teams and their thematic groups, the steady movement towards synchronization of programming cycles and simplification and harmonization of procedures, the establishment of the United Nations House in many countries, the progress towards results-based management and budgeting, the establishment of the United Nations Development Group (UNDG) and concerted efforts to build viable instruments of collaboration, such as the common country assessments and the United Nations development assistance frameworks (UNDAFs), as well as their links with the poverty reduction strategic papers (PRSPs) in an increasing number of countries, have all been directed to the purpose of enhancing the coherence, effectiveness and impact of United Nations development cooperation in support of country efforts to achieve development goals. The multi-year funding frameworks with their resource targets were designed to underpin these reforms with the resources required to produce sustained improvement in results. However, until very recently, the resource situation has remained tenuous, at best. It is only in the past year or so that there have been some tentative signs of improvement.

III. Funding for United Nations development cooperation

16. Recognizing the need for adequate financing for implementing the conclusions of the Millennium Summit, the General Assembly called upon the entire United Nations system to assist Member States in every possible way to implement the Millennium Declaration.[5] This request implies that, for the United Nations system to play this role, adequate resources are required. The issue of how to ensure that the operational activities of the United Nations system are funded at an adequate level and on a stable footing should be seen as an integral part of the overall effort to implement the Millennium Declaration and a tangible translation of the Monterrey Consensus.

17. Many country-level functions undertaken by the United Nations system are of high priority and concern to the international community. While Member States have repeatedly emphasized the key role of the United Nations system in development, the funding support does not always reflect this high priority. It is time to take a look at the issue in the light of the new development context, so that the system can play its multifaceted role more effectively. In the final analysis, funding decisions are a manifestation of political will. It is the collective commitment of Member States to multilateral development cooperation that will reshape and strengthen the United Nations development system as a vital instrument to promote coherence and generalized and unbiased complementary support for sustainable development and poverty eradication.

18. The system of annual voluntary contributions, which is used to fund operational activities for development of the United Nations system, has served the world and the United Nations system reasonably well over the past 50 years, and the recent introduction of multi-year funding frameworks is intended to reduce their annual volatility with multi-year programming.

19. Currently, United Nations organizations are making efforts to integrate the global development agenda into their own programmes, embedding internationally agreed goals in all aspects of their country-level work, aligning priorities, sharpening focus, strengthening skill profiles and redesigning programmes, so as to provide coherent and effective responses to national demands.

20. In spite of extensive reforms to increase effectiveness and efficiency, and the steady increase in overall funding for United Nations development activities from $5.61 billion in 1992 to $7.73 billion in 2001 (excluding the World Bank group), core or regular resources of funds and programmes have, with the exception of World Food Programme (WFP), remained stagnant or declined,[6] although they improved slightly in 2002.[7] The long-term stagnation in resource flows, when adjusted for inflation, resulted into a decline of the resource base in real terms. If there is broad agreement that additional resources are needed to help countries attain the objectives of the new international development agenda, the resource base of United Nations agencies should also be reviewed to strengthen the system and make it a viable and stable partner in this overall effort.

21. The stagnation of core funding raises concerns. Core funding plays a key role in ensuring that the development function of the United Nations system is preserved, guaranteeing a widespread and qualified country presence through the availability of crucial technical services required to support countries. Core funding is at the foundation of the multilateralism, flexibility, universality and neutrality that characterize the United Nations system, which can only be sustained if its operational structures are endowed with adequate means and skills.

22. Another key aspect, in the light of the trend towards the use of special funds or direct budget support, is how to ensure that general resources for the United Nations development system are available in adequate size and quality, and are optimally used. Member States have explicitly requested the United Nations system to change the thrust of its country-level work from short-term project funding to long-term programming, from "United Nations system execution" to national execution, and to move beyond system-wide harmonization and coordination to integration with national processes. Nevertheless, while development dynamics and the corresponding role of the United Nations system have changed, financing dynamics have not kept pace with the changing demands being placed on the system. There is a need not only for new money but also for new partners, among and within countries, and new ways of working with them.

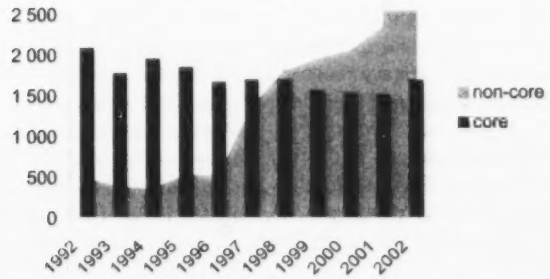
23. Another concern is that increases in humanitarian assistance needs have tended to crowd out the resources required for long-term development. This is typically the case for WFP, where development cooperation has become marginal as compared with food assistance linked to emergency situations. The increase in non-core resources of the United Nations Children's Fund (UNICEF) too is often linked to the increased demands for humanitarian assistance. Furthermore, "reconstruction and post-conflict recovery" initiatives, which emerge in post-emergency situations, are increasingly absorbing resources that are then no longer available for regular development programmes.

IV. Patterns of United Nations development funding

United Nations funds and programmes

24. Within the United Nations development cooperation architecture, the four United Nations funds and programmes — the United Nations Development Programme (UNDP), UNICEF, WFP and the United Nations Population Fund (UNFPA) — occupy a pivotal place. Though their mandates vary, their funding patterns are similar, based on annual voluntary contributions split between core (or regular) and non-core (or supplementary) funds. Over 95 per cent of their core resources come from Development Assistance Committee (DAC) member countries and efforts to broaden the donor base have not yet borne fruit. While core or regular funding continues to be the backbone of their development work, non-core funding has increased in volume and importance in recent years, becoming larger than core funding in the case of UNDP and UNICEF.

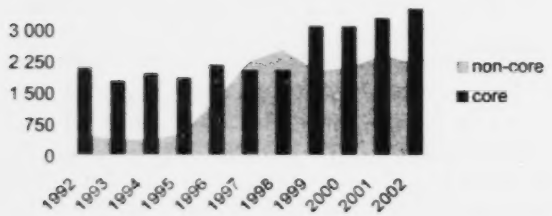
Figure I
Core and non-core contributions to the United Nations funds and programmes (without WFP) 1992-2002



25. A major concern is the continuing decline in core funding of UNDP, although non-core resources have increased. Having reached a peak level of $1.2 for 1992, UNDP core resources declined to $911 million in 1995 and $681 million in 1999, a 40 per cent fall between 1992 and 1999. The decline continued in 2000, touching a low of $634 million before rising slightly to $651.7 million in 2001. The projection for 2002 is $670.3 million, which is an encouraging sign.

26. While core contributions to UNDP showed a decline until 2000, non-core contributions in the form of third-party cost sharing arrangements, trust funds and extrabudgetary resources increased fourfold from $408 million in 1992 to over $1.6 billion in 2001. Non-core funding has filled important programme gaps and it is a measure of the quality of services provided by UNDP and to the credit of UNDP management that it was able to attract such resources in such a competitive global environment. Nevertheless, only 19 per cent of these funds come from DAC countries, while the bulk of them are associated with government cost-sharing in a number of countries.

Figure II
Core and non-core contributions to the United Nations funds and programmes 1992-2002



27. The regular resources of UNFPA have been quite unstable, reaching a high of $337 in 1997 and declining to $244.1 million in 1999, before rising marginally to $256.4 million in 2000 and to $260.million in 2001. The projection for 2002 is $256 million, a decrease of 5 per cent from the 2001 level. Non-core funding to UNFPA has shown a marked increase, although it represents only one half of total funding for this organization.

28. The experience of UNICEF follows the same pattern, with a substantial decline of regular resources until 2001, but a rise in regular resources in 2002 to approximately the level of 1992. Government contributions to UNICEF core resources fell from $426 million in 1992 to $351 million in 2001, an 18 per cent decline. Supplementary funding to UNICEF has substantially increased in the long term. The base for supplementary resources of UNICEF is broader than that of the other funds and programmes, and includes not only contributions from Governments for earmarked countries and programmes but also resources raised by national committees, NGOs, foundations and other miscellaneous sources. The decline in government contributions to UNICEF has partly been offset by income from the general public generated by a network of national committees, which grew from $117 million in 1992 to $164 million in 2001.

29. Regular contributions to WFP (which currently include a considerable portion for humanitarian purposes[8]) rose sharply in 1999, mainly as a result of a change in the criteria adopted to distinguish between core and non-core resources.[9] Supplementary contributions to WFP have therefore been substantially reduced to a marginal role (see annex). Data on overall contributions to WFP are, however, strongly affected by the large role of humanitarian assistance in their regular resources.

Other funds, programmes and United Nations entities

30. The United Nations development system encompasses other organizations like the United Nations Centre for Human Settlement (Habitat), the United Nations Environment Programme (UNEP) and the United Nations Conference on Trade and Development (UNCTAD), the Department of Economic and Social Affairs (DESA) of the United Nations and the regional commissions, among others. Each of them also has country-level development initiatives among its activities, although they do not have country offices (the UNDP resident representative formally represents them in each country). During the past two decades, some of these "other entities" have come to the centre stage of the development debate, but this has not been reflected in their funding. For example, despite the importance of trade as a critical element of economic growth and development, UNCTAD expenditure on technical cooperation has been stagnant over the past five years ($21-25 million a year). Contributions to UN-HABITAT are mainly extrabudgetary in nature and consist of earmarked funds for specific activities. UNDP funding of its technical cooperation has substantially declined.

31. Similarly, environment has been at the forefront of the global consciousness since the Rio Summit. Furthermore, the Millennium Declaration assigned a specific goal to environmental sustainability. This goal is still under-funded, however, although the establishment of the Global Environment Fund was an important achievement. Environmental sustainability calls for strengthened United Nations intervention at the country level.[10] The funding of the premier United Nations organization in this area, UNEP, is largely (95%) based on extrabudgetary resources. A decision was made in 2002 by its Governing Council to launch a new funding system, called the Indicative Scale of Contributions, as a pilot. The Indicative Scale of Contributions is based on contributions by all Member States in accordance with their level of economic and social development.

32. Operational activities undertaken by DESA and the regional commissions are especially focused on the integrated follow-up to the outcomes of the major conferences, on which the Millennium Declaration is built. Therefore, an increase in the resources available for their operational work would also be especially beneficial in advancing the implementation of the Millennium Development Goals.

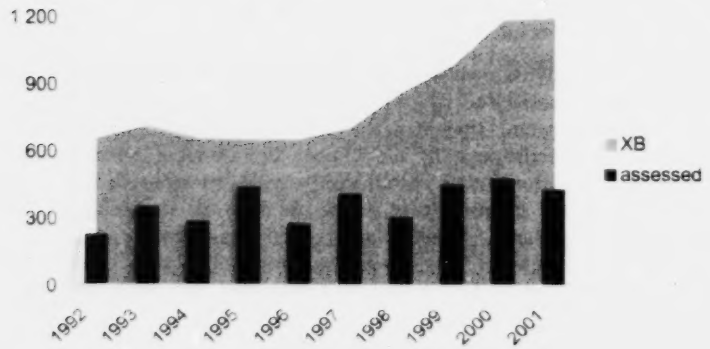
Specialized and technical agencies

33. Given their mandates, their long experience in technical cooperation and their expertise, the United Nations specialized agencies — whether or not they have field offices — play an important role through their country-level operations in the pursuit of the development agenda adopted at the global level. Their technical cooperation activities, however, have been adversely affected by the paucity of programmable funds, amounting to $1,613 million in 2001 (see figure III and the

annex), with their assessed funding (corresponding to the notion of core or regular resources) remaining stagnant at around $400 million. If the specialized agencies are expected to support national efforts to enhance development, only through adequate and predictable funding will they be able to provide the technical and specialized expertise required, such as support for health and education systems, new seeds, new farming strategies and the application of information and communication technologies.

34. The total biennial budget of the World Health Organization (WHO) for its substantive work has remained static since 1996-1997 at $842 million. To strengthen its country offices, WHO has increased its budgetary allocation for that purpose from $92 million for the biennium 2002-2003 to $116 million in 2004-2005. Extrabudgetary contributions (corresponding approximately to the notion of non-core resources), however, increased from about $700 million to around $1.2 billion, repeating the pattern of the funds and programmes. Extrabudgetary contributions to UNESCO rose from $352 million in 2000 to $357 million in 2001, remaining substantially stationary.

Figure III
Assessed and extrabudgetary contributions to the United Nations specialized and technical agencies 1992-2001



35. The long-term pattern of funding of technical cooperation by the specialized agencies has also been affected by the reduction of UNDP funding for their activities, which represents, for example, about 5 per cent of the current technical cooperation activities of ILO, as compared to 70 per cent in the 1980s, and $13.2 million in 2000 for the Food and Agriculture Organization of the United Nations (FAO), as compared to $108.1 million in 1993. UNESCO has expressed concern at the trend in resources provided by the funds and programmes. The reduction of UNDP funding responded to the request of the General Assembly in paragraphs 14, 18, 19 and 24 of resolution 44/211 and paragraphs 15, 16 and 18 of resolution 47/199 that national execution be considered as the preferable modality of executing programmes and projects, also as a way to enhance national ownership and absorptive capacity.[11] Ties between the two groups of organizations may have been

affected, as well as the structure of programmes, the geographical distribution of fund allocation and eventually the priorities pursued.

Current modalities

36. A variety of modalities is used to fund development cooperation of the United Nations system — although voluntary contributions are the principal mode of funding — including annual contributions to the core or regular budget and ad hoc non-core or supplementary contributions through trust funds or in other forms.

37. Voluntary contributions are made to individual organizations separately, taking into account the distinct vocation, mandate and constituency of each organization. There is some experience of collaborative fund-raising, limited to restrictive purpose funds (see para. 42 below). The widespread use of this modality allows for flexibility, although it results in volatility and a limited donor base.

38. The multi-year funding frameworks initiated in recent years in UNDP, UNICEF and UNFPA are a modification of the system of annual voluntary contributions. The multi-year funding frameworks were intended to combine the purpose of reducing annual volatility of funding — by having more predictable contributions through multi-year pledges — with a programmatic approach that integrates programme objectives, budget, resources and results into a results-based management system. Their most significant feature is the simultaneous consideration of financial programming (which includes resource mobilization) and assessment of the effective use of resources through results-oriented management.

39. The multi-year funding framework may have contributed to improving the resource situation of UNDP after seven consecutive years of decline in core funding, helping increase contributions to the regular budget for the first time in 2001. The efficacy of the multi-year funding framework in facilitating multi-year pledging is, however, still uncertain.[12] It is too early to come to any definitive conclusion, although some preliminary observations can be made: (i) the multi-year funding framework has significantly sharpened the programme focus of these organizations in selected thematic areas, which are the basis of a strategic results framework, and is a major step towards increased efficiency; (ii) there have been only marginal increases in core funding; (iii) contributions are still subject to annual volatility and the goal of placing core funding on a predictable and assured basis has remained elusive; and (iv) notwithstanding some improvement, the donor base is still narrow and overly dependent on a few countries.

40. Another mechanism, seldom used to support development cooperation but prevalent in funding regular budgets in other parts of the United Nations, particularly within the Secretariat, and used by specific agencies, is the system of assessed contributions. The pilot introduction of the Indicative Scale of Contributions by UNEP is an example. With this system, contributions come from a wide country base. In the case of the UNEP pilot experiment, all countries, including LDCs, provide a contribution, however modest, providing a solution to one permanent problem of United Nations development funding, i.e. its narrow donor base.[13] This system requires first to estimate the expected expenditures and then to establish the amount of contribution that each potential donor should provide, establishing criteria at the intergovernmental level.

41. A third modality, adopted by the International Development Association (IDA) and the International Fund for Agricultural Development (IFAD),[14] is "negotiated replenishment", where contributions are determined, after a negotiating process on the basis of the contributing country's relative economic strength and commitment to support poorer countries. Although the bulk of IDA and IFAD funds are lent as soft loans or credits, this modality could be used also by entities that provide only grants.[15] It is a complex mechanism, but it may ensure stability in programming once the replenishment is negotiated.

42. A fourth modality is based on ad hoc funds linked to a specific thematic use. It extends the concept of the "programme approach" from the national ambit to the global arena. Objectives can be identified either in the global development strategy or in other specific development purposes. Within the United Nations, notable examples include UNAIDS, which has attracted donor funding to its Unified Budget Work plan,[16] the Global Environment Facility (GEF), the Consultative Group on International Agricultural Research, and the polio eradication partnership, where WHO and UNICEF plan and monitor fund-raising efforts in collaboration with other partners. Such partnerships tend to be global in scale. The capacity of these funds to generate substantial additional funding varies. They often require organizational structures to perform adequately at the country level and may entail increased transaction costs. This modality is not unique to the United Nations system, since there are global funds outside of the system.

43. Assessed contributions and negotiated replenishments are examples of "legally binding commitments", as opposed to voluntary contributions. At a time when many donors are under strong financial pressure, donors may honour legally binding obligations before discretionary ones. Nevertheless, the effectiveness of these modalities cannot be judged only on technical grounds, since their suitability depends on the political will of potential contributors. No modalities per se can protect the United Nations system from volatility or inadequacy of funding, unless there is a clear political will on the part of a wide donor base to provide sufficient funding.

V. Other sources of funding

44. While funding of operational activities is the primary responsibility of Governments, there is room for intensifying collaborative approaches between the United Nations development system and the private sector, both domestic private firms and foreign companies. Involvement of the business sector in supporting United Nations funds and programmes, for instance, is increasing. A few agencies (for example, UNIDO and the International Trade Centre (ITC), among others) have increasingly relied on partnership with business groups, industrial associations, chambers of commerce, associations of exporters/importers and individual companies. This may not account for a significant part of their budgets but the potential of these initiatives should not be underestimated.

45. The uncertainty and vulnerability of funding for development cooperation makes the search for other financing sources an important undertaking that, if successful, could complement public funding. The Secretary-General has repeatedly stressed the need to establish stronger collaboration with the business sector and has called for efforts to unify forces, establish new discussion forums, attract corporate

donations to the United Nations and increase participation by the private sector in the development programmes and projects of the United Nations system. Recent proposals to forge public/private partnerships around specific goals and to mobilize resources from financial markets with public guarantees have also generated considerable interest.

46. Collaboration with the private sector can take various forms. Traditionally it includes the participation of international financial institutions, such as the International Finance Corporation of the World Bank group, in ventures promoted by the private sector. More innovative schemes may include management contracts, private financing of programme components, joint ventures, leasing contracts and arrangements for contracting out services. Areas such as energy, transportation, telecommunications and the environment, are typical examples of where this collaboration is not only possible but also advisable, although it could find much broader application.

47. In spite of these opportunities, it should be recognized that public financing, principally ODA, will continue to play the main role in funding development activities of the United Nations system. Traditional donors — DAC countries — will be its major contributors, although it would be desirable to expand the donor base by increasing the share of other countries and new constituencies, in tune with the rising economic weight of some developing countries, which, in the new spirit of partnership, should not be considered only as recipients.[17]

48. As the High-level Panel on Financing for Development noted, if the DAC countries actually delivered ODA equal to 0.7 per cent of their GNP,[18] aid would increase by about $100 billion a year, which "would surely be enough to provide every low-income country that seriously pursues the 2015 goals with aid sufficient to avoid their attainment being jeopardized by a lack of external resources". Although not all donors may be able to reach this target, there are encouraging signs that the donor community is making significant progress in fulfilling its commitments.[19] The participation of the United Nations system in this overall effort could facilitate the implementation of these programmes and achieve the desired goals.

49. New thinking is also needed on the relationship between United Nations development funding and domestic financial resources. The Monterrey Consensus (para. 4) noted that domestic resources are interwoven with the global economic system. Despite the indispensable role of development cooperation, it is national resources that bear the brunt of development financing in the vast majority of countries. The organizations of the United Nations system have regularly interacted with national Governments, relying on national contributions to co-finance budgets of their programmes. Even when they consist only of in-kind contributions, these contributions should be reflected in the fiscal budget and be subject to rigorous scrutiny like any other public expenses. The 2001 triennial comprehensive policy review called for more efforts to promote national ownership and programmatic integration of operational activities for development of the United Nations system. This requires tighter links between financial disbursements for United Nations activities, funded by external donors, and domestic contributions coming from either government or non-government sources, in a spirit of shared responsibility and partnership, thereby linking country-level programming of the United Nations system with national programming.

Relationship with the Bretton Woods institutions

50. Funding for multilateral development finance institutions has not experienced the same problems of instability and stagnation suffered by the rest of the system, not only because the financial mechanisms are different but also owing to the different perception that donor countries have of the institutions' respective roles.

51. One goal of the reform was strengthening the relationship between the United Nations and the Bretton Woods institutions. Member States have long underscored the need for closer cooperation and partnership with those institutions, particularly the World Bank, and such cooperation has in fact expanded and intensified, including at the country level. Collaboration could be further intensified, including through joint funding, but a proper division of labour, based on respective competences, comparative advantages and complementary roles to assist recipient countries, should be preserved.

52. There has also been a shift towards grant funding through the World Bank, which may affect this collaboration. It has been agreed to convert 18 to 21 per cent of IDA loans related to key sectors into grants for some categories of countries. The role of the World Bank with regard to technical assistance is expanding substantially. In 1995, it totalled $1.9 billion ($1.3 billion for investments or economic reform projects and $610 million as freestanding technical assistance), representing 10 per cent of the total lending.[20] The Bank's Trust Fund Programme — grant funding — expanded in 2002 to $5.34 billion from $4.38 billion in the previous year, an increase of 22 per cent. Furthermore, the donor community has agreed to establish with the Bank several new major trust fund programmes in areas such as AIDS, tuberculosis and malaria control, Niger River Basin development, knowledge for change and capacity-building for poverty reduction.[21]

Consequences of core shortfall

53. The Council may wish to consider the implications of the inadequacy of core resources for operational activities. Although non-core supplementary resources have sometimes been used to support essential functions and structures of some organizations, their role is often limited to financing specific programme activities, enabling them to respond to special circumstances and specific needs. They cannot replace core or regular resources. Core funding is the only guarantee that basic functions are performed, with adequate personnel and services, including at the country level, in response to the institutional mandates and agendas and the needs of recipient countries. Core funding is the foundation of the multilateral and neutral functioning of the organizations of the United Nations system, enabling them to develop and pursue coherent result-oriented programmes in support of internationally agreed goals. When regular or core funding stagnates or remains inadequate, the capacity of the organizations to deliver is diluted, since non-core contributions can only respond to specific objectives. Their utilization also causes distortion in resource allocation.

54. Shortfalls and reductions in core funding have led to severe setbacks, such as critical cuts in core capacities, including at the country level. Consequently, programmes are abandoned, drastically cut back or their implementation period is stretched, with serious social consequences. Scaling down country offices is another implication and, as distinct from streamlining field structures, may limit the global development presence of the United Nations system at the grass-roots level.

VI. Conclusions and recommendations

55. United Nations development cooperation is an often untold success story. Although much remains to be done to improve the efficiency and effectiveness of the United Nations development system, there are significant achievements that characterize its fundamental function. It is seen as an indispensable source of support and advice by developing countries. Over the decades, it has saved millions of lives, helped improve social conditions and enhanced capacity to deal with poverty and disease. At the same time, the system's development work is at a critical point, facing new challenges, new tasks and new targets at a time when its capacity has been significantly curtailed.

56. Reforms with a focus on "doing things right" continue to be important, but the internationally agreed development goals also provide the framework for "doing the right things". All the organizations have implemented reforms designed to bolster their performance, intensifying collaboration to harmonize support to recipient countries, integrating efforts in assessing development challenges, strategizing system-wide responses to national priorities, undertaking joint programming, pooling resources and coordinating roles, particularly in countries emerging from conflict. The underlying expectation was that donors would respond to those reforms with substantial additional and predictable resources. However, in spite of some improvement in 2002, there has not been any significant change in the funding dynamics of the United Nations development system. If the internationally agreed development goals are to be achieved, all countries must commit themselves not only in intention but also in policies, actions and resource allocations, on a sustained basis, and the international community must match its declarations of support with real and substantial increases, over a sustained period, in official development assistance. Furthermore, the United Nations development system must be strengthened to perform its indispensable advocacy, support and catalytic role to galvanize national and international actions.

57. The challenge, then, is to summon up the political will of Member States to empower the United Nations system at the country level with the potential capacity to respond to the new demands, making the United Nations an effective vehicle to assist countries in this new context. Delivery modules of development cooperation may need to be re-engineered, by being organically linked to national polices, priorities, programmes and procedures. New instruments may be introduced and old ones may be modified, including through tighter links with private resources (both domestic and international). Continuing efforts are also required to enhance the content and character of United Nations-aided activities and their development relevance. These measures, however, will not be sufficient unless financial support ensures the proper functioning of the United Nations organizations. Experience gained so far in raising resources for United Nations development cooperation indicates the need for a fundamental review of the current paradigm of funding.

58. The Millennium Declaration and the outcomes of the major United Nations conferences provide sufficient momentum to start an intergovernmental dialogue on United Nations development funding that is appropriate to the 21st century, since it was the United Nations that mobilized a global consensus on development goals and identified global partnership as one of its key goals. National ownership, shared responsibility, financial partnership and equitable burden sharing are all corollaries

of that consensus, and the future of development cooperation at the United Nations should be seen in this context.

59. The new dialogue may look into new issues, such as the expansion of the donor base, but should also address, with a new resolve, traditional themes such as the increase and stabilization of core funding. Why is this funding not placed on a stable and secure footing as other multilateral mechanisms? Can new ways be found to take United Nations development financing to a higher plateau? What are the conditions to ensure increasing predictability and stability of funding for operational activities for development? What should be done to encourage more countries and non-State constituencies to contribute additional resources for United Nations system operations?

Recommendations

60. **The Council may wish:**

(a) To reaffirm and underscore the collective commitment and political will of Member States to strengthen the role and capacity of the United Nations development system to assist developing countries in every possible way in the implementation of the internationally agreed development goals, including those contained in the Millennium Declaration;

(b) To welcome the significant progress made in the reform of the United Nations development system and to call for its continuation, with a view to achieving greater coherence of efforts and resources, particularly at the country level;

(c) To recognize that strengthening the role and capacity of the United Nations development system to assist countries in achieving their development goals requires not only continuing improvement in its effectiveness, coherence and impact, but also a concomitant and substantial augmentation of its resource base and putting it on a more continuous, predictable and assured basis;

(d) To call upon the United Nations system to continue and to accelerate its ongoing work on simplification and harmonization;

(e) To call upon all donor countries and countries in a position to do so to increase substantially their contributions to the core/regular budgets of United Nations system organizations, wherever possible on a multi-year basis;

(f) To call for further exploration of other sources of funding for United Nations system development activities;

(g) To undertake a comprehensive intergovernmental dialogue on United Nations development funding, through the establishment of an intergovernmental working group, in the light of the changed development dynamics and the challenges that internationally agreed goals present to the developing countries and the international community, with a view to formulating concrete recommendations for consideration by the General Assembly at its triennial comprehensive policy review in 2004;

(h) To request the Secretary-General to undertake further analytical work on this theme, to feed this dialogue with additional elements, present the outcome to the Council at its substantive session in 2004 and submit recommendations to the General Assembly in the context of the triennial comprehensive policy review.

Notes

[1] This report has been prepared in accordance with General Assembly resolution 56/201 (para. 27) on the triennial comprehensive policy review, in which the Assembly requested the Economic and Social Council to consider, at its substantive session of 2003, the conclusions reached at the triennial comprehensive policy review on resources for operational activities for development, reviewing the progress made on the issue of funding of development cooperation activities of the United Nations system. In preparing this report, the views of the organizations of the United Nations system were invited and taken into account.

[2] The operational activities segment of the 2000 substantive session was the latest occasion on which the Council addressed this topic with special attention. (See the Report of the Secretary-General (E/2000/46) and Council resolution 2000/19 on funding operational activities for development of the United Nations system.)

[3] In its resolution 55/162 (para. 9), the General Assembly recognized that the implementation of the Millennium Declaration would require adequate financing at the national, regional and international levels.

[4] See S. Devarajan, M. J. Miller and E. V. Swanson, "Goals for Development: History, Prospects and Costs", World Bank Discussion Paper No. 2819, April 2002, Washington, D.C.

[5] See resolution 55/162, para. 3.

[6] See figures I and II on core funding for the four main funds and programmes, and the annex. The report of the Secretary-General contained in document E/2003/57 contains comprehensive statistical data on operational activities for development for the year 2001.

[7] The volatility of exchange rates has not been factored in this analysis. Since donors disburse their contributions in national currencies, their corresponding value in dollars is affected by circumstances that affect the United States currency. In 2002 exchange rates favoured European currencies.

[8] This report does not provide an analysis of funding for humanitarian assistance by the United Nations system. A separate report on this is being submitted to the humanitarian segment of the Council.

[9] In 1998, core resource contributions to WFP were $327.6 million and non-core were $719.7 million. In 1999, a new system of WFP core/non-core presentation showed that core resources amounted to $1,513 million and non-core amounted to $54.2 million. In 2001, core contributions rose to $1,756 million and non-core dropped to $38.1 million. For 2002, estimates of core resource contributions are $1,805.6 million and non-core are $44.1 million.

[10] Nearly 100 United Nations country teams reported taking action on the environment in 2001, up from more than 50 teams in 2000.

[11] See General Assembly resolution 53/192, para. 51.

[12] In 1999, 27 countries increased their contributions to UNDP core funds. Of these, 11 were donor countries, half of them from the DAC group, and 16 were programme countries. In April 2000, nine DAC and 10 programme countries pledged increased contributions. At the time, eight pledged for 2001 at the same level as for 2000; four also pledged for 2002, but only 38 per cent of donors found it possible to pledge for 2002, for a total amount of $262 million. See "Mobilizing support and resources for the United Nations funds and programmes: Study 2000:1", commissioned by the project Development Financing 2000, Ministry for Foreign

Affairs, Sweden, 2000. For UNFPA, the increased diversification of its funding base had a positive impact. In 1999, pledges were received from 69 countries, while in 2001 there were 135 donors (but only 27 pledges were multi-year and only four of these were from donor countries). For 2003, only 13 multi-year pledges have been submitted and six industrial countries indicated their intention of increasing their contribution. UNFPA aims to return to the $300 million annual level and widen the donor base (in 2003, four donors are responsible for 70 per cent of regular contributions). Although UNICEF has integrated the programmatic objectives in its multi-year funding framework — expressed in its medium-term strategic plan with resources, budgets and results — the slight movement upwards in core contributions over the past two years is viewed with cautious hope, but has had a limited impact on burden sharing. The introduction of multi-year funding frameworks has increased the numbers of donors that provide contributions and multi-year pledges. Nevertheless, pledges from middle-income developing countries have decreased in both number and amount, with those from low-income countries increasing. There is still significant scope to increase contributions from high-income countries and improve burden sharing.

[13] The ISC is based, inter alia, on the United Nations scale of assessment, with a minimum indicative rate of 0.001 per cent, a maximum indicative rate of 22 per cent (0.01 per cent for LDCs). It takes into account the economic and social circumstances of a country, providing for increases of its contributions over the current level. While remaining voluntary and annual, it aims at broadening the donor base. The pilot phase will be reviewed in 2004.

[14] In the IFAD model, three different groups of countries are identified (OECD, OPEC and recipient developing countries), allowing for a broader funding base.

[15] The IDA grant component increased to 18-21 per cent of the total in the latest replenishment.

[16] Its annual core budget has grown from $60 million in 1996 to $95 million in 2003.

[17] The present share of non-DAC countries in United Nations development core funding — roughly 3 per cent — is disproportionately low.

[18] The target of 0.7 per cent of GNP has been on the table since 1969, but only five countries out of 22 donors have attained it. The overall record was at the level of 0.33 per cent for the period 1990-1992 and declined to $56 billion in 1999 (0.24 per cent) and even further to $53.7 billion and $51.4 billion in 2000 and 2001, corresponding to 0.22 per cent in both years.

[19] At a meeting of the European Council in Barcelona, before the Monterrey Conference, the members of the European Union committed themselves to increasing their collective ODA to 0.39 per cent by 2006, as a step towards reaching the 0.7 per cent target. The United States announced the establishment of a Millennium Challenge Account injecting significant new resources into overseas development — leading up to $5 billion annually by 2006 (expanding United States operations by almost 50 per cent). The United Kingdom announced a proposal for an international finance facility, a long-term funding guaranteed mechanism to help meet the Millennium Development Goals and support the poorest countries that would raise $50 billion to $100 billion per year until 2015. Canada announced support of $500 million for the New Partnership for Africa's Development (NEPAD).

[20] World Bank Annual Report 1996.

[21] World Bank Annual Report 2002.

Annex

Contributions from Governments and other sources for operational activities of the United Nations system: Overview, 1992-2001

(Millions of current United States dollars)

	1992	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002[a]*
Contributions to United Nations funds and programmes											
Core											
1. UNDP	1 073.8	909.0	942.8	911.0	854.8	766.6	758.0	681.3	634.1	651.7	670.3
2. UNDP-administrated funds	55.9	47.3	63.6	78.1	56.4	51.1	85.9	47.6	45.6	50.3	42.5
3. UNFPA	233.2	217.0	254.5	305.0	232.4	337.0	268.9	244.1	256.4	260.2	260.1
4. UNICEF	707.0	588.0	679.0	541.9	516.1	529.3	577.6	585.9	596.7	541.4	709.0
5. WFP	n/a	n/a	n/a	n/a	480.0	348.8	327.6	1 513.0	1 532.0	1 756.0	1 805.6
Total core	**2 069.9**	**1 761.3**	**1 939.9**	**1 836.0**	**2 139.7**	**2 032.8**	**2 018.0**	**3 071.9**	**3 064.8**	**3 259.6**	**3 487.5**
Other (non-core)											
1. UNDP	408.0	409.0	646.6	701.0	916.0	930.3	1 348.0	1 393.0	1 376.0	1 569.0	1 954.6
2. UNDP-administrated funds	227.9	79.6	10.6	14.3	28.0	32.0	10.5	11.8	13.5	15.0	19.3
3. UNFPA	5.0	2.7	10.7	32.1	42.5	32.6	36.5	30.2	130.6	103.6	128.0
4. UNICEF	231.0	278.0	327.0	464.7	424.7	357.7	388.4	500.2	515.6	638.9	747.0
5. WFP	n/a	n/a	n/a	n/a	853.3	864.1	719.7	54.2	39.2	38.1	44.1
Total other (non-core)	**871.9**	**769.3**	**994.9**	**1 212.1**	**2 264.5**	**2 216.7**	**2 503.1**	**1 989.4**	**2 074.9**	**2 364.6**	**2 893.0**
Contributions to other United Nations funds and programmes[b]	73.5	55.0	78.3	69.8	121.0	83.8	72.7	369.5	364.1	495.9	n/a
Contributions for operational activities of United Nations specialized agencies											
Assessed (regular budget)	219.4	345.8	280.0	433.4	269.5	402.6	297.3	444.0	469.6	424.0	n/a
Extrabudgetary	649.5	706.5	651.2	645.9	646.5	695.5	852.7	975.8	1 178.0	1 189.0	n/a
Total to specialized agencies	**868.9**	**1 052.3**	**931.2**	**1 079.3**	**916.0**	**1 098.1**	**1 150.0**	**1 419.8**	**1 647.6**	**1 613.0**	**n/a**
Grand total	**5 619.1**	**5 073.3**	**5 489.3**	**5 479.6**	**5 479.6**	**5 431.4**	**5 742.4**	**6 850.2**	**7 151.5**	**7 733.5**	**n/a**

[a] Estimates.

[b] Regular budget and extrabudgetary contributions, including government self-supporting contributions, to the United Nations and its regional commissions, UN-Habitat, UNCTAD and the United Nations Drug Control Programme.